



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS  
AUDIT OF THE FINANCE AND ADMINISTRATION CABINET**

**Made as Part of the Statewide Single Audit  
of the Commonwealth of Kentucky**

**For the Year Ended June 30, 2000**

**EDWARD B. HATCHETT, JR.  
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**EXECUTIVE SUMMARY**  
**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS**  
**AUDIT OF THE FINANCE AND ADMINISTRATION CABINET**  
**FOR THE YEAR ENDED JUNE 30, 2000**

**BACKGROUND:**

The Federal Single Audit Act of 1984, subsequent amendments, and corresponding regulations, requires the auditing of financial statements and the compliance and internal controls applicable to federal moneys received by the Commonwealth of Kentucky. To comply with these requirements we audited internal controls and compliance at both the central and agency level. This summary is on our audit of one organizational unit of the Commonwealth, the Finance and Administration Cabinet.

**SUMMARY OF AUDITOR'S RESULTS:**

**Financial Statement Accounts**

Compliance: One instance of noncompliance.

Internal Control Over Financial Reporting: Four (4) reportable conditions and seven (7) other matter comments were reported.

**Federal Awards and Schedule of Expenditures of Federal Awards**

Not applicable

**GENERAL TOPICS OF REPORTABLE CONDITIONS:**

- Inadequate accounting procedures
- Inadequate technology procedures, policies, and security

**Agencies With Reportable Conditions:**

Office of Financial Management  
Fixed Assets Branch  
Division of Statewide Accounting Services



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## **INTRODUCTION**





**FINANCE AND ADMINISTRATION CABINET  
INTRODUCTION  
FOR THE YEAR ENDED JUNE 30, 2000**

**Introduction**

The Auditor of Public Accounts (APA), acting as principal auditor in conjunction with various certified public accounting firms, annually performs a statewide single audit of the Commonwealth of Kentucky. This audit allows the Commonwealth to comply with federal audit requirements as set forth in the Single Audit Act of 1984, as amended by Public Law 104-156, and the regulations contained in the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

**Schedule of Findings and Questioned Costs**

The Schedule of Findings and Questioned Costs consists of three sections:

- The Summary of Auditor's Results
- Financial Statement Findings
- Federal Award Findings and Questioned Costs

Each audit finding number and the audit finding's classification (as reportable, material, or other matters) is provided as part of the audit opinion summary. Major programs audited are listed on the Summary of Auditor's Results. The second part is the Financial Statement Findings. This part lists all the audit findings related to the financial statements. The third part, the Federal Award Findings and Questioned Costs, lists all findings related to federal awards. Generally, the state agency, CFDA number and program, federal agency, pass-through agency, and the compliance area the finding relates to are presented. In both parts two and three, reportable conditions and reportable instances of noncompliance are presented first, then material weaknesses and material instances of noncompliances, followed by other matters.

**Audit Approach**

Our audit was conducted in accordance with the Single Audit Act Amendments of 1996, OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, *Government Auditing Standards* (also referred to as the Yellow Book), and generally accepted auditing standards. The scope of the statewide single audit for the year ended June 30, 2000, included:

- An audit of the general-purpose financial statements and required supplementary schedules in accordance with generally accepted government auditing standards;
- An audit of supplementary Schedule of Expenditures of Federal Awards in accordance with generally accepted government auditing standards;

**FINANCE AND ADMINISTRATION CABINET  
INTRODUCTION  
FOR THE YEAR ENDED JUNE 30, 2000  
(CONTINUED)**

- An audit of the internal control applicable to the Finance and Administration Cabinet to the extent necessary to consider and test the internal accounting and administrative control systems as required; and
- A selection and testing of transactions and records relating to each major federal assistance program to obtain reasonable assurance that the Finance and Administration Cabinet administers its major federal financial assistance programs in compliance with laws and regulations for which noncompliance could have a material effect on the allowability of program expenditures or on the Commonwealth's general-purpose financial statements.

The APA conducted the audit of internal controls, focusing on the following objectives:

- Considering the internal control in order to determine auditing procedures on the general-purpose financial statements of the Commonwealth.
- Determining if the Commonwealth of Kentucky has an internal control to provide reasonable assurance that it is managing the federal assistance programs in compliance with applicable laws and regulations.

We have included in this report findings related to the Governor's Office for Technology (GOT). This agency was administered under the Finance and Administration Cabinet for part of fiscal year 2000, but moved to the Cabinet for General Government during a reorganization implemented later during the fiscal year.

**FINANCE AND ADMINISTRATION CABINET  
INTRODUCTION  
FOR THE YEAR ENDED JUNE 30, 2000  
(CONTINUED)**

**List Of Abbreviations/Acronyms Used In This Report**

AFR	Annual Financial Report
AMS	American Management Systems
APA	Auditor of Public Accounts
C1	Cash Receipt Document
CAMRA	Complete Asset Management Reporting and Accounting System
C&I	Cash and Investments
CFDA	Catalog of Federal Domestic Assistance
CMIA	Cash Management Improvement Act
CUSIP	Committee on Uniform Securities Identification Procedures
DB2	Data Base (software package)
DSAS	Division of Statewide Accounting Services, Finance and Administration Cabinet
FAC	Finance and Administration Cabinet
FY	Fiscal Year
GOT	Governor's Office for Technology
JV	Journal Voucher
KAPS	Kentucky Automated Purchasing System
KAR	Kentucky Administrative Regulation
KY	Kentucky
MARS	Management Administrative Reporting System
MOC	Minor Object Code
MRDB	Management Reporting Database
MW1	Manual Warrant Document (in MARS)
N/A	Not Applicable
OFM	Office of Financial Management
OMB	United States Office of Management and Budget
P1	Payment Document (in MARS)
PD	Procurement Desktop
REDA	Reductions to be Applied
STARS	Statewide Accounting and Reporting System
TSA	Treasury State Agreement
ZBA	Zero Balance Accounting
ZBA-ACH	Zero Balance Accounting-Account Clearing House
U.S.	United States

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL**





EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS

To The People of Kentucky  
Honorable Paul E. Patton, Governor  
T. Kevin Flanery, Secretary  
Finance and Administration Cabinet

Report On Compliance And On Internal Control Over  
Financial Reporting Based On An Audit Of General-Purpose  
Financial Statements Performed In Accordance With *Government Auditing Standards*

As part of the audit of the general-purpose financial statements of the Commonwealth of Kentucky as of and for the year ended June 30, 2000, we have audited cash with fiscal agents and expenditures in the debt service fund, expenditures in the capital projects fund, receipts and expenditures in the computer services fund, general fixed assets account group, budgetary and allotment controls, and investments of the Finance and Administration Cabinet, an organizational unit of the Commonwealth of Kentucky as defined by KRS 12.010, and have issued our report thereon dated February 28, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Several agencies were audited for internal control and compliance requirements in accordance with *Government Auditing Standards* by other auditors whose reports thereon have been furnished to us, and our opinion presented herein, insofar as it relates to these agencies is based solely on the reports of the other auditors.

Compliance

As part of obtaining reasonable assurance about whether the Commonwealth's financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 00-FAC-4. We also noted certain immaterial instances of noncompliance, which we have reported to management.

Report On Compliance And On Internal Control Over  
Financial Reporting Based On An Audit Of General-Purpose  
Financial Statements Performed In Accordance With *Government Auditing Standards*

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Finance and Administration Cabinet's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Finance and Administration Cabinet's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 00-FAC-1, 00-FAC-2, 00-FAC-3, and 00-FAC-4.

We also noted certain reportable conditions relating to bank accounts and computer security. Due to the nature of these conditions, the related findings and recommendations will be presented separately to the Finance and Administration Cabinet and the Governor's Office for Technology.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. We also noted other matters involving the internal control over financial reporting that we have reported to the management of the Finance and Administration Cabinet and are described in the accompanying Schedule of Findings and Questioned Costs of this report.

This report is intended solely for the information and use of management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,



Edward B. Hatchett, Jr.  
Auditor of Public Accounts

February 28, 2001



**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**



**FINANCE AND ADMINISTRATION CABINET  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2000**

**SECTION 1 - SUMMARY OF AUDITOR'S RESULTS**

**Financial Statement Accounts**

Financial Statement Accounts: We issued an unqualified opinion on the Commonwealth's general-purpose financial statements, which include the Finance and Administration Cabinet, as of and for the year ended June 30, 2000.

Internal Control Over Financial Reporting: Our consideration of the Finance and Administration Cabinet's internal control over financial reporting disclosed four reportable conditions. We believe that none of the reportable conditions noted are material weaknesses.

Our consideration of the Finance and Administration Cabinet's internal control over financial reporting also disclosed seven other matter conditions that are presented in the Schedule of Findings and Questioned Costs.

Compliance: The results of our tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards*.

**Federal Awards and Schedules of Expenditures of Federal Awards**

This section is not applicable to the Finance and Administration Cabinet

**Identification of Major Programs Audited**

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This section is not applicable to the Finance and Administration Cabinet

**Dollar Threshold Used to Distinguish Between Type A and Type B Programs**

The maximum dollar threshold used to distinguish between Type A and Type B programs was \$14 million; however, there were no programs applicable to the Finance and Administration Cabinet.

**Auditee Qualify as Low-Risk Auditee?**

The Commonwealth of Kentucky did not qualify as a low-risk auditee.

**FINANCE AND ADMINISTRATION CABINET  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For The Year Ended June 30, 2000  
(Continued)**

**SECTION 2 - FINANCIAL STATEMENT FINDINGS**

**Reportable Conditions Relating To Internal Controls And/Or Reportable Instances  
Of Noncompliance:**

**FINDING 00-FAC-1: The Office Of Financial Management Should Reconcile MARS  
And CAMRA Monthly To Ensure Agreement Between The Two Systems**

Information in the Complete Asset Management Reporting and Accounting System (CAMRA), a computer system maintained by the Office of Financial Management (OFM), did not agree to the information in MARS at June 30, 2000. When FAC reconciled CAMRA and MARS at the end of the fiscal year, the reasons for the differences included cash receipt documents (C1s) not being entered in MARS, investment purchase documents (MWIs) not being entered in MARS, and accrued interest, premium, and/or discounts being improperly recorded. The information in CAMRA agreed to the information provided by Farmers Bank & Capital Trust Company (Farmers Bank) and the Bank of New York and therefore was assumed to be correct. FAC corrected the errors in MARS through several Journal Vouchers (JVs).

Also, the C1 and MWI documents used by OFM follow a numerical series from one to infinity. During our review, we found several documents had been entered and approved with typographical errors in the document number field. In addition, several document numbers in the series were inadvertently overlooked.

Reconciliation between MARS and CAMRA is time consuming and difficult. The errors relating to the incorrect recording of premiums, discounts, and accrued interest were corrected in one JV, which adjusted the MARS balance to CAMRA due to the time and difficulty of locating the specific errors.

At times, there was additional money in the state's bank account with no corresponding C1 document recording the money's existence in MARS. Treasury compares the C1 documents with deposit tickets provided by Farmers Bank. Treasury is supposed to get copies of all deposit tickets. Apparently, there was some confusion in FY 2000 which resulted in C1 documents not being entered.

At other times, money left the state's bank account, with no corresponding MWI recording the transaction in MARS. The transfer of money out of the state's bank account, when an investment is purchased, is triggered by the Investment Memo, not the MWI document. FAC does not review the Investment Memo prior to releasing the MWI documents to ensure all transactions have been recorded appropriately.

Reports based on document number type or a sequential numbering system will not show documents with typographical errors in the document field.

**FINANCE AND ADMINISTRATION CABINET  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2000  
(CONTINUED)**

**SECTION 2 - FINANCIAL STATEMENT FINDINGS**

**Reportable Conditions Relating To Internal Controls And/Or Reportable Instances  
Of Noncompliance: (Continued)**

**FINDING 00-FAC-1: The Office Of Financial Management Should Reconcile MARS  
And CAMRA Monthly To Ensure Agreement Between The Two Systems (Continued)**

Good internal controls should ensure all cash receipts, investment purchases, premiums, discounts, and accrued interest are recorded properly in the Commonwealth's accounting system.

Documents with typographical errors in the document field should not be approved by FAC. The use of a sequential numbering system for documents simplifies locating documents and determining where they originated easier.

**Recommendation**

We recommend OFM ensure a reconciliation between MARS and CAMRA be done on a monthly basis to catch errors in a timely manner. We also recommend FAC personnel approving the MWI documents receive a copy of the Investment Memo and ensure the information entered in MARS agrees with the Investment Memo (the source document for the MWI) prior to final approval of the MWI.

We recommend OFM consider turning on the feature in MARS that automatically enters the document number in the document number field.

Also, OFM personnel should receive training on the recording of premiums, discounts, and accrued interest in MARS.

Maintaining a log of MWIs, CIs, the Committee on Uniform Securities Identification Procedures (CUSIP) number, and amount each MWI and CI pertains to would be a good way to reconcile monthly.

**Management's Response and Corrective Action Plan**

*OFM concurs that monthly reconciliation is a good idea and will initiate discussions with the Finance and Administration Cabinet to determine their views. OFM believes keeping sequential numbering is an aid to control and tracking that manual entry promotes that. Training has been provided as suggested and OFM believes those problems have been resolved.*

**FINANCE AND ADMINISTRATION CABINET  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2000  
(CONTINUED)**

**SECTION 2 - FINANCIAL STATEMENT FINDINGS**

**Reportable Conditions Relating To Internal Controls And/Or Reportable Instances  
Of Noncompliance: (Continued)**

**FINDING 00-FAC-2: The Finance And Administration Cabinet Should Establish  
Procedures For Performing A Statewide Physical Inventory And Implement Controls  
For Proper Accounting And Reporting Of Fixed Assets**

During the audit of fixed assets, we noted weaknesses in internal control related to the conversion of fixed asset records from STARS into MARS. First, agencies were initially given instruction that equipment conversions should be complete by November 22, 1999. However, we noted during the course of our audit that several agency conversions still had not been submitted. Although FAC Fixed Assets Branch was able to obtain and load most agency conversion files prior to the end of the audit, nineteen agencies had not been converted, one of which had fixed assets in excess of \$43,000,000. The failure to require timely submissions of equipment conversions led to an omission of approximately \$1,627,367 in fixed assets, as well as the required \$43,000,000 manual adjustment.

Furthermore, we compared FY 2000 beginning asset balances in MARS to FY 1999 ending balances in STARS. We noted significant differences and investigated them to determine the nature. It appears that during the conversion process, some agencies brought assets into the MARS system that had never been recorded in STARS. Also, some assets previously recorded in STARS were not carried forward into the MARS beginning balance. This created significant variances in the beginning MARS balance.

There appears to be no central system of controls to isolate and correct variances. There were no procedures in place to determine whether the differences were actual prior year disposals and additions that had not been recorded, or whether the differences were errors made by agencies in converting their assets. Although FAC may have instructed agencies not to perform record maintenance during the conversion process itself, it appears most agencies made changes during the conversion, and the conversion files were accepted without exception.

The lack of controls over the conversion process created significant reconciling differences. FAC could not determine whether these differences were related to prior year recording errors or errors in the agency conversion because there were no verification procedures in place. There is an increased risk of significant unknown errors in the equipment balance in future periods unless the proper controls and procedures are implemented.

Proper internal control dictates procedures should be in place to ensure the timeliness, existence, completeness, and accuracy of fixed assets reported by the Commonwealth.

**FINANCE AND ADMINISTRATION CABINET  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2000  
(CONTINUED)**

**SECTION 2 -FINANCIAL STATEMENT FINDINGS**

**Reportable Conditions Relating To Internal Controls And/Or Reportable Instances  
Of Noncompliance: (Continued)**

**FINDING 00-FAC-2: The Finance And Administration Cabinet Should Establish  
Procedures For Performing A Statewide Physical Inventory And Implement Controls  
For Proper Accounting And Reporting Of Fixed Assets (Continued)**

**Recommendation**

We recommend the following:

- FAC obtain and load into MARS all outstanding conversions.
- FAC establish systematic procedures for implementing a statewide physical inventory. Procedures should include establishing a timeline for completion, procedures for performing the inventory count, and procedures for making necessary adjustments to the records as a result of the inventory results.
- FAC implement controls for a periodic verification of fixed asset records and assist agencies with consistent accounting and reporting of fixed assets.

**Management's Response and Corrective Action Plan**

*Division of Statewide Accounting Services will load outstanding conversions into the MARS system. Currently, policies and procedures are being developed for the physical inventory of fixed assets. Procedures will address the timeline for completion, procedures for performing the inventory count, and necessary adjustments to the system. Also, controls will be implemented to verify fixed asset records periodically. Statewide Accounting Services will continue to provide agency training through the Annual Financial Closing Package, Customer Resource Center (CRC) fixed asset training classes, and site specific training upon agency request.*

**FINANCE AND ADMINISTRATION CABINET  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2000  
(CONTINUED)**

**SECTION 2 - FINANCIAL STATEMENT FINDINGS**

**Reportable Conditions Relating To Internal Controls And/Or Reportable Instances  
Of Noncompliance: (Continued)**

**FINDING 00-FAC-3: The Office Of Financial Management Should Improve Control  
Procedures Over Modifications To System Programs**

OFM has not developed and implemented formalized policies and procedures for control of program modifications for batch programs that feed into CAMRA, which is used to process Commonwealth investments. CAMRA software is purchased from an external vendor. Our prior year audit revealed OFM followed adequate procedures concerning testing and implementation of their new version of CAMRA. However, they have several critical batch programs that provide data to CAMRA, as well as providing data from CAMRA to MARS. These batch programs are maintained by OFM. Formal policies and procedures were not developed and implemented to ensure all program modification requests were documented, monitored, tested, and properly approved prior to being placed into production.

In the past, CAMRA-related batch programs were Access and Excel macro programs maintained by one OFM employee. Some documentation was placed within the programs to describe the process. Otherwise, there was very little other documentation on the various batch programs. The employee maintaining the programs held most of that knowledge. That individual left the employment of OFM in February 2000. Prior to the employee leaving OFM, he made changes to several programs and provided some hands-on training for an OFM employee hired as a replacement. However, no documentation was developed to ensure OFM management or any subsequent employees would have descriptions of objectives of the various programs or how they should be processed. Furthermore, many of these batch programs are currently being rewritten in a different reporting language by another current OFM employee. Since the agency intends to continue to update or change these programs, it is imperative they ensure adequate program change controls are implemented and adequate documentation is maintained.

Formalized program modification policies and procedures are needed to ensure consistent procedures are followed for authorization and approval of program changes, development of technical and user documentation, user training, testing requirements, tracking of requests, transfer of changes into production, and an audit trail of program changes.

Without formalized controls over program modifications, management increases the risk that incorrect or unauthorized changes could be moved into production and adversely affect system processing. Also, without a formal documented system for tracking program modifications, it would be difficult for OFM to know the status of requested changes or if they are being billed for services they did not request. Finally, adequate system documentation is needed to ensure that OFM management, as well as current and future employees, are aware of the functions these programs execute.



**FINANCE AND ADMINISTRATION CABINET  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2000  
(CONTINUED)**

**SECTION 2 -FINANCIAL STATEMENT FINDINGS**

**Reportable Conditions Relating To Internal Controls And/Or Reportable Instances  
Of Noncompliance: (Continued)**

**FINDING 00-FAC-3: The Office Of Financial Management Should Improve Control  
Procedures Over Modifications To System Programs (Continued)**

**Recommendation**

We recommend OFM management ensure development and implementation of formal written program modification control procedures. The procedures should address the following issues:

- Tracking of program change requests and completion.
- Testing requirements.
- Authorization and approval of changes.
- Technical and user documentation.
- Control of program transfers to production.
- User training.

**Management's Response and Corrective Action Plan**

*OFM concurs with the recommendations.*

*OFM is in the process of developing and implementing a new interface with CAMRA version 2.0 in a "stand alone" mode, whereby the production system can not be affected. The process being followed is an informal one and is detailed below. Once the system is ready for production formal procedures consistent with the recommendations will be established. The new interface is creating a Data Warehouse to replace the current ACCESS EXCEL system and is being written utilizing Statistical Analysis System as the language. Appropriate documentation is being developed at each step of the process. The new system is being extensively tested, checked for accuracy, monitored and approved at each stage of development. OFM expects to begin "side-by-side" (parallel) testing and evaluation within the next several weeks. The test results will be documented and the information will be available for review. Once the CAMRA 2.0 interface and Data Warehouse has been successfully tested, CAMRA 3.5 will be installed, developed, tested and implemented using the same process. Once we are assured that the interface and Data Warehouse is operating correctly, we will implement CAMRA 3.5, the new Data Warehouse, and interface as the production system. Both the Data Warehouse and interface with CAMRA 2.0 and CAMRA 3.5 have been and will conform to the recommendations.*

**FINANCE AND ADMINISTRATION CABINET  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2000  
(CONTINUED)**

**SECTION 2 - FINANCIAL STATEMENT FINDINGS**

**Reportable Conditions Relating To Internal Controls And/Or Reportable Instances  
Of Noncompliance: (Continued)**

**FINDING 00-FAC-4: The Finance And Administration Cabinet Should Monitor  
Cash Management Improvement Act Eligible Projects To Ensure They Are Properly  
Recorded In MARS**

During our review of compliance with the Cash Management Improvement Act of 1990 (CMIA) for FY 2000 reportable projects, we noted that procedures were not being consistently followed to establish the projects and their funding within MARS. The prescribed method of establishing CMIA reportable projects and their funding is within the MARS Advanced Projects and Grants Training manual. According to this manual, if a CFDA grant is listed in the Treasury-State Agreement (TSA), then all projects associated with that CFDA should have the CMIA Eligible toggle button switched to “Yes” within the Agency Project table. Further, there are three valid billing cycles for these projects: Composite Clearance, Zero Balance Accounting (ZBA), and Zero Balance Accounting – Account ClearingHouse (ZBA-ACH). The applicable billing cycle should be set up within the Project Funding Source table.

Through a review of the Management Reporting Database (MRDB) MREP.ADV\_AGENCY\_PROJECT table, the auditors determined that the process of setting the CMIA Eligible toggle button (flag) to “Yes” was not followed consistently. In addition, the administrators at FAC were not monitoring CMIA-related projects to ensure that only those projects associated with reportable CFDA's within the TSA for FY 2000 were listed as CMIA eligible.

There were 5,226 projects on the MRDB MREP.ADV\_AGENCY\_PROJECT table with the CMIA Eligibility flag switched. However, 414 of these projects, or 7.9 percent, were associated with CFDA's that are not listed on the TSA for FY 2000. In addition, there were 491 projects designated CMIA reportable based on the TSA, but not properly designated as CMIA eligible on the ADV\_AGENCY\_PROJECT table.

Further, while reviewing the MRDB MREP.ADV\_PROJECT\_FUND\_SOURCE table, it became apparent that not all the projects associated with the CMIA reportable CFDA's had corresponding project funding source information in this table. Since the Billing Cycle field within the ADV\_PROJECT\_FUND\_SOURCE table holds a character that indicates what type of clearance pattern to use, projects without funding source information will not be routed through the Project Billing process. There were 494 projects without a corresponding record in the ADV\_PROJECT\_FUND\_SOURCE table.

**FINANCE AND ADMINISTRATION CABINET  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2000  
(CONTINUED)**

**SECTION 2 - FINANCIAL STATEMENT FINDINGS**

**Reportable Conditions Relating To Internal Controls And/Or Reportable Instances  
Of Noncompliance: (Continued)**

**FINDING 00-FAC-4: The Finance And Administration Cabinet Should Monitor  
Cash Management Improvement Act Eligible Projects To Ensure They Are Properly  
Recorded In MARS (Continued)**

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Through an extraction of data from the MRDB MREP.FCT1\_EXPENDITURE table, we identified 34 projects, or 6.9 percent, of the 494 projects previously noted, that had \$3,130,754.51 in expenditures processed to them during the existence of MARS that were eligible for reimbursement. After a review of all transactions associated with these projects, there were 13 projects, or 2.6 percent, with \$74,732.11 in eligible expenditures that had not been reimbursed.

Finally, there was no review of the MRDB MREP.ADV\_PROJECT\_FUND\_SOURCE table for CMIA reportable projects to ensure the accuracy of the billing cycles chosen. During the review of available billing cycle information, it was found there were two CFDA's with problems concerning a billing designation other than that shown on the TSA: Family Support Payments to States – Assistance Payments (CFDA #93.560) and Highway Planning and Construction (CFDA #20.205). CFDA #93.560 was combined with CFDA #93.561 to create CFDA #93.558. Therefore, those projects associated with CFDA #93.560 should have been transferred to CFDA #93.558. There were no transactions associated with these projects for FY 2000; however, since there are still projects associated with CFDA #93.560, any future associated expenditures and reimbursements could potentially be excluded from CMIA reporting.

For CFDA #20.205, the projects were supposed to be established as Composite Clearance (“O”), but there were 13 projects with “M” (Monthly) and “W” (Weekly) indicators. Two of these projects had expenditures totaling \$27,584.64 that should have been reimbursed through the prescribed Composite Clearance pattern for FY 2000. Instead, these expenditures were associated with the monthly billing cycle. Therefore, funding for these projects was not in compliance with the TSA entered into by FAC for FY 2000.

Ultimately, the accuracy and completeness of the information within MARS is the responsibility of FAC. To ensure the information to be reported annually to the U.S. Treasury under the requirements of CMIA is available and correct, FAC must ensure all federal project information maintained within MARS is accurate and complete.

**FINANCE AND ADMINISTRATION CABINET  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2000  
(CONTINUED)**

**SECTION 2 - FINANCIAL STATEMENT FINDINGS**

**Reportable Conditions Relating To Internal Controls And/Or Reportable Instances  
Of Noncompliance: (Continued)**

**FINDING 00-FAC-4: The Finance And Administration Cabinet Should Monitor  
Cash Management Improvement Act Eligible Projects To Ensure They Are Properly  
Recorded In MARS (Continued)**

**Recommendation**

We recommend FAC begin monitoring the establishment of projects within MARS to ensure the completeness and accuracy of this information. This function should include, but not be limited to:

- Periodic review of the MREP.ADV\_AGENCY\_PROJECT table to ensure all projects related to CMIA-reportable CFDA's are properly noted with the CMIA-Eligibility flag.
- Periodic review of all projects with the CMIA-Eligibility flag switched on the MREP.ADV\_AGENCY\_PROJECT table to ensure they are associated with CFDA's that appear on the TSA for the current year.
- Periodic review of the MREP.ADV\_PROJECT\_FUND\_SOURCE table to ensure all CMIA reportable projects have been given the proper Billing Cycle designation.

Further, FAC should review those projects that had non-reimbursed expenditures. If these expenditures have not been reimbursed, FAC should work with the agencies involved to resolve these outstanding expenses.

**Management's Response and Corrective Action Plan**

*The strategies to be followed by the Division of Statewide Accounting Services to ensure the completeness and accuracy of projects in the system are as follows:*

- *Require agencies to certify that the projects upon which we are calculating CMIA interest represent a complete listing of projects associated with TSA-applicable CFDA numbers.*
- *Verify that the CFDA numbers carried on the Agency Project Inquiry are valid by comparing to a list of CFDA numbers that is known to be valid.*

**FINANCE AND ADMINISTRATION CABINET  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2000  
(CONTINUED)**

**SECTION 2 - FINANCIAL STATEMENT FINDINGS**

**Reportable Conditions Relating To Internal Controls And/Or Reportable Instances Of Noncompliance: (Continued)**

**FINDING 00-FAC-4: The Finance And Administration Cabinet Should Monitor Cash Management Improvement Act Eligible Projects To Ensure They Are Properly Recorded In MARS (Continued)**

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**Management's Response and Corrective Action Plan (Continued)**

- *Verify that projects associated with TSA-applicable CFDA numbers have been set up as "participating" (in automated billing). Require agencies to explain such projects that have been set up as non-participating.*
- *Verify that participating projects associated with TSA-applicable CFDA's are set up on the Project Funding Source inquiry to use billing cycles that are consistent with those specified in the TSA agreement.*

**Other Matters Relating To Internal Controls And/Or Instances Of Noncompliance:**

**FINDING 00-FAC-5: The Office Of Financial Management Should Ensure Investment Memos Are Signed And Only Allowable Securities Purchased**

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During testing of 33 purchase transactions, we noted 2 exceptions; one Investment Memo for March 3, 2000 was not signed by all authorized personnel and one investment purchase did not meet the requirements for corporate securities as set forth in state law.

The Office of Financial Management (OFM) personnel prepare the Investment Memo, which lists all investment buys, sells, and maturities on a daily basis, and Farmers Bank moves money based on the daily Investment Memo. The Investment Memo is reviewed and signed to indicate authorization of the investment transactions. The preparer, an Investment Section employee, another OFM employee, and a Treasury employee must sign the Investment Memo. OFM did not receive a copy of the March 3, 2000 Investment Memo from Treasury (where the originals are kept) and did not request a copy of the Investment Memo. Thus, no one realized the Investment Memo had not been signed by Treasury personnel. Farmers Bank uses the copy of the Investment Memo faxed to them by OFM, which is supposed to be signed by all parties prior to being faxed.

On October 12, 1999, a corporate security (CUSIP 285659AD0) was purchased with a maturity date of October 15, 2004. Corporate securities are limited to 5 years and this security exceeds that limit by 3 days. No one reviewing the Investment Memo noticed that the security did not meet the maturity requirements for a corporate security.

**FINANCE AND ADMINISTRATION CABINET  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2000  
(CONTINUED)**

**SECTION 2 - FINANCIAL STATEMENT FINDINGS**

**Other Matters Relating To Internal Controls And/Or Instances Of Noncompliance:**  
**(Continued)**

**FINDING 00-FAC-5: The Office Of Financial Management Should Ensure  
Investment Memos Are Signed And Only Allowable Securities Purchased**  
**(Continued)**

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Without proper review and approval, the Investment Memo could contain errors, resulting in the state investing in unauthorized investments. Good internal controls dictate investment transactions be reviewed and authorized by all appropriate personnel.

OFM was not in full compliance with 200 KAR 14:011 Section 5, which states:

The maturity of investments made by the commission shall be subject to the liquidity needs of the Commonwealth as determined by the commission within the following limits:

(6) US dollar denominated corporate and Yankee securities issued by foreign and domestic issuers, rated A or higher by a nationally recognized rating agency, with a maturity not longer than five (5) years and limited to not more than twenty-five (25) percent of an individual pool and twenty-five (25) million dollars per issuer, inclusive of commercial paper, bankers acceptances, and certificates of deposit.

**Recommendation**

We recommend OFM personnel hand deliver the Investment Memo to an authorized signer. Additional personnel in Treasury may need to be authorized to ensure at least one person is available to sign the memo.

We also recommend OFM remind all personnel signing the Investment Memo of the limitations imposed by 200 KAR 14:011 regarding authorized investments.

**Management's Response and Corrective Action Plan**

*OFM concurs that the investment memo should be hand delivered to an authorized Treasury signatory. OFM has changed its procedures to insure this occurs and will request alternate authorized signatories be named. OFM has reminded personnel to check the investment memo to assure compliance with statutory and regulatory requirements.*

**FINANCE AND ADMINISTRATION CABINET  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2000  
(CONTINUED)**

**SECTION 2 - FINANCIAL STATEMENT FINDINGS**

**Other Matters Relating To Internal Controls And/Or Instances Of Noncompliance:**  
**(Continued)**

**FINDING 00-FAC-6: The Finance And Administration Cabinet Should Implement Controls To Ensure All Agencies Report Capital Lease Information In The Annual Closing Package And Should Establish A Consistent Accounting Policy For Capital Leases**

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During the FY 2000 audit of capital leases, several weaknesses were noted. The auditor generated a report from MARS and compared it to AFR-55 forms submitted by individual agencies. The AFR-55 form is a lease obligation worksheet which details lease payments made by the agency. While comparing the MARS report with the AFR-55 forms, it was noted that not all agencies submitted AFR-55 forms for their capital leases. Also, it was noted that there is some confusion as to what Minor Object Code (MOC) to use for capital leases. Since agencies were not consistent with the coding of capital lease agreements, the comparison between the MARS report and AFR-55 forms could not be completed.

During testing of the Lease Liability Worksheet prepared by the Fixed Assets Branch, it was noted that payment amounts for FY 2000 did not agree. There were some agencies that underpaid and some that overpaid. Therefore, the agency's outstanding liability amount was incorrect. Also, it was noted in some instances AFR-55 forms were submitted by the agency, but payments were not recorded on the governmental lease log.

The accounting for capital lease agreements is inconsistent between agencies. Also, the outstanding lease liability amount can be either under or overstated if the lease liability worksheet does not reflect actual lease payments made by the agencies.

Good internal controls dictate that accounting for capital leases should be consistent between all agencies. In addition, follow-up procedures should be in place to ensure the appropriate closing package information is obtained from the agencies concerning their lease obligations, and that the information is used to accurately reflect lease liability amounts by FAC.

**Recommendation**

We recommend that:

- The Fixed Assets Branch ensure that all agencies submit AFR-55 forms for ALL capital leases. This should include following up with all agencies until an AFR is submitted.

**FINANCE AND ADMINISTRATION CABINET  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2000  
(CONTINUED)**

**SECTION 2 - FINANCIAL STATEMENT FINDINGS**

**Other Matters Relating To Internal Controls And/Or Instances Of Noncompliance:**  
**(Continued)**

**FINDING 00-FAC-6: The Finance And Administration Cabinet Should Implement Controls To Ensure All Agencies Report Capital Lease Information In The Annual Closing Package And Should Establish A Consistent Accounting Policy For Capital Leases (Continued)**

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**Recommendation (Continued)**

- FAC establish a consistent accounting policy to be used by the agencies in recording capital leases. In addition, the Fixed Assets Branch should inform all agencies of the policy to ensure consistent application.
- The Fixed Assets Branch update the Lease Liability Worksheet to reflect payments made by the agency and to ensure the outstanding liability amount is correct.
- The Fixed Assets Branch ensure the governmental lease log is updated with current information i.e. record number of lease payments made during the current fiscal year.

**Management's Response and Corrective Action Plan**

*Division of Statewide Accounting Services is establishing procedures to insure that all capital leases are recorded. These procedures will include: reports submitted by vendors detailing the Commonwealth's leasing agreements with them, system reports reflecting all activity against the Commonwealth's line of credit, used solely to acquire fixed assets. These reports will be reconciled to the agency submitted AFR-55 and differences reconcile. Agencies will also be trained on the correct object code to use for capital leases. In addition, all lease logs will be updated yearly.*



**FINANCE AND ADMINISTRATION CABINET  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2000  
(CONTINUED)**

**SECTION 2 - FINANCIAL STATEMENT FINDINGS**

**Other Matters Relating To Internal Controls And/Or Instances Of Noncompliance:**  
(Continued)

**FINDING 00-FAC-7: The Finance And Administration Cabinet Should Work In Conjunction With The Governor's Office For Technology To Implement Logging And Audit Features Within Procurement Desktop**

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During a review of the Procurement Card system, it was brought to our attention that there was no feature in Procurement Desktop (PD) that could identify the user that made changes to the PD database. This functionality is available in Advantage; however, there is no similar feature for Oracle, the environment in which PD is processed.

Currently, within PD, there is no logging being made of either the user-initiated transactions or security-related login attempts. Due to this lack of audit logging procedures for the PD Oracle environment, there is no way to determine the initiator of changes to the database or identify security violations. This situation could potentially cause a hardship if inquiries arose concerning questionable or inappropriate changes or inappropriate or unauthorized accesses made to the PD database.

Without sufficient logging and auditing features, a system is vulnerable to probes, scans, or attacks that could be perpetrated on the system for extended periods of time without proper intrusion detection and incident response by the owner of the data or programs.

**Recommendation**

We recommend that the Finance and Administration Cabinet work in conjunction with the Governor's Office for Technology to ensure that logging and auditing features are designed and implemented for the PD Oracle environment to provide sufficient audit trails of database alterations or security violations.

**Management's Response and Corrective Action Plan**

*During the design and development phase of MARS, the Finance and Administration Cabinet worked to enhance the audit trail functionality within the Procurement Desktop product. Currently, PD maintains an audit trail of documents created, deleted, approved and routed, as well as changes to PD reference tables. This information is maintained on an internal table that is not accessible to the general PD user.*

**FINANCE AND ADMINISTRATION CABINET  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2000  
(CONTINUED)**

**SECTION 2 - FINANCIAL STATEMENT FINDINGS**

**Other Matters Relating To Internal Controls And/Or Instances Of Noncompliance:**  
**(Continued)**

**FINDING 00-FAC-7: The Finance And Administration Cabinet Should Work In  
Conjunction With The Governor's Office For Technology To Implement Logging  
And Audit Features Within Procurement Desktop (Continued)**

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**Management's Response and Corrective Action Plan (Continued)**

*Incorporated into this functionality is the ability for the Finance Cabinet, working with GOT, to place audit trails on documents and fields through the use of database triggers. While this type of flexibility allows the degree of audit trail necessary to address the documented concerns, it would come at some performance cost to the application. Notwithstanding this, it is the intent of the Finance and Administration Cabinet to evaluate the findings of this recommendation, and identify the placement of audit trail capabilities within Procurement Desktop as appropriate.*

**FINDING 00-FAC-8: The Finance And Administration Cabinet Should Develop  
Formal Procedures For All System Assurance Efforts**

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During the review of the system assurance procedures in place for the new Management Administrative Reporting System (MARS), it was noted that not all procedures were performed throughout the fiscal year. In addition, most of these procedures were not formally documented. There were three different types of system assurance procedures being performed that were not formalized during the fiscal year; however, one type has since been documented.

First, procedures performed by the Division of Statewide Accounting Services (DSAS) involving system assurance reports developed from the Procurement Desktop (PD) and the Advantage Financial (Advantage) modules were not formalized during the fiscal year under audit; however, they were formalized prior to our audit fieldwork. The formalized procedures include descriptions of the DSAS employee's processes and the steps taken to resolve errors that are noted within the system assurance reports. These reports have been created and reviewed since the implementation of the system in July 1999. American Management Systems (AMS) contractors began this process; in November 1999, DSAS took over the review process.

**FINANCE AND ADMINISTRATION CABINET  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2000  
(CONTINUED)**

**SECTION 2 - FINANCIAL STATEMENT FINDINGS**

**Other Matters Relating To Internal Controls And/Or Instances Of Noncompliance:**  
**(Continued)**

**FINDING 00-FAC-8: The Finance And Administration Cabinet Should Develop Formal Procedures For All System Assurance Efforts (Continued)**

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Similar information was expected to be in existence for the daily system assurance procedures performed comparing the Management Reporting Database (MRDB) and the Advantage DB2 (DB2) tables. The daily MRDB System Assurance and Exception Reports were developed by a DSAS employee and have been monitored since May 2000. These reports are scheduled to run through Seagate Reports as soon as the MRDB database is made available each morning. DSAS employees review the reports to ensure the accuracy of tables in MRDB and DB2. Once a discrepancy is noted, Governor's Office for Technology (GOT) personnel will be contacted to determine the reason for the discrepancy. They are also charged to determine the best method of correcting the problem. Once the problem is corrected, these reports are reproduced to ensure that the problem has been corrected and that there are no further problems. There are currently no written procedures in place concerning the processes surrounding the use of these reports.

Finally, a reconciliation is performed monthly using the Monthly Summary Trial Balance by Fund report (FMP614K) developed from DB2 and the Balance Sheet by Fund report developed from the MRDB. DSAS has performed reconciliations at least once a month since July 1999. During the first part of FY 2000, these reports were reconciled several times during the month. If there are discrepancies, then various GOT and Finance personnel are contacted to determine the problem and the best way to correct the problem. As noted with the daily reports, there are currently no written procedures in place concerning the processes surrounding the use of reports.

For system assurance procedures to be effectively implemented and maintained, detailed written procedures must be developed. These procedures provide the framework used to educate management and users of their responsibilities. Furthermore, formalized system assurance procedures provide continuity for procedure implementation and illustrates management's concern for strong data integrity within the system.

**Recommendation**

We recommend that DSAS develop detailed written procedures documenting the processes followed for the creation and review of the daily and monthly system assurance reports between the Advantage DB2 and the MRDB and for the correction of errors discovered through review of these reports. Further, these procedures should be distributed to all employees that are involved with the system assurance task.

**FINANCE AND ADMINISTRATION CABINET  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2000  
(CONTINUED)**

**SECTION 2 - FINANCIAL STATEMENT FINDINGS**

**Other Matters Relating To Internal Controls And/Or Instances Of Noncompliance:**  
**(Continued)**

**FINDING 00-FAC-8: The Finance And Administration Cabinet Should Develop  
Formal Procedures For All System Assurance Efforts (Continued)**

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**Management's Response and Corrective Action Plan**

*We agree that procedure documentation should be in writing for daily and monthly evaluation of the MRDB and DB2 system assurance reports. We will have that formally written up.*

**FINDING 00-FAC-9: The Finance And Administration Cabinet Should Strengthen  
Security Over The Reductions To Be Applied Table**

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During our examination of the security surrounding the Reductions To Be Applied (REDA) table within MARS, we noted that table entries could be deleted from the table without being reapplied to other accounts. The REDA table is used in the offset process for federal drawdowns of grant funds with program income received. Information removed from this table, either intentionally or inadvertently, will not be regenerated by MARS.

Because of the way the security for the REDA table was established in MARS, all the fields with the exception of the reduction amount are "key" fields. This means that in the case where a reduction needs to be transferred to another accounting string, the original record would have to be deleted and a new record entered reassigning the reduction. Within MARS, a warning message is sent to the user if a record is deleted, but does not prohibit the action or require the user to reassign the reduction. Failure to reassign the reduction will result in a loss of data. However, there may be situations when a reduction record should be deleted completely off the table. Because of this fact, there is no edit within the system to require an addition for each deletion of a reduction entry.

Currently, the REDA table is not reviewed to ensure on-line actions taken against it are reasonable. There is no log generated nightly or periodically. However, FAC stated that since the database logs are maintained for 30 days, a log of the actions taken against the REDA table could be constructed if a problem arose.

The REDA table is associated with three Project/Grant-related security groups. Therefore, any user who requires "Enter" and/or "Delete" access to these groups for other documents and tables would also have that same ability within the REDA table.

**FINANCE AND ADMINISTRATION CABINET  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2000  
(CONTINUED)**

**SECTION 2 - FINANCIAL STATEMENT FINDINGS**

**Other Matters Relating To Internal Controls And/Or Instances Of Noncompliance:**  
**(Continued)**

**FINDING 00-FAC-9: The Finance And Administration Cabinet Should Strengthen Security Over The Reductions To Be Applied Table (Continued)**

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To properly separate duties between the initiation of federal draws and the alteration of these draws through reductions, the REDA table entries should be secured separately from other Project/Grant-related activities. Without adequate separation of duties between these two functions, there is the potential for deletions of reductions being made without proper authorization either accidentally or intentionally to increase the amount of draws against a federal grant.

**Recommendation**

We recommend FAC review the security related to the REDA table to determine possible alternatives to strengthen access controls. One possible solution that has been discussed with FAC is to remove the REDA table from its current security groups and restrict any add, delete, and change access to this table to one or two individuals within a project who have the authority to adjust potential reductions associated with the project.

Further, we recommend FAC perform a review of actions taken against the REDA table periodically to ensure the actions are reasonable and supported by the associated project.

**Management's Response and Corrective Action Plan**

*The Division of Statewide Accounting Services (DSAS) will run a log analyzer periodically to check for activity by users and investigate any unauthorized use of the REDA table. A recent check of activity on the REDA table showed no activity for the previous 30 days. It is the belief of DSAS that this lack of activity warrants no change in security on the REDA table.*

**FINANCE AND ADMINISTRATION CABINET  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2000  
(CONTINUED)**

**SECTION 2 - FINANCIAL STATEMENT FINDINGS**

**Other Matters Relating To Internal Controls And/Or Instances Of Noncompliance:**  
**(Continued)**

**FINDING 00-FAC-10: The Finance And Administration Cabinet Should Consistently Apply Procedures To Calculate Interest For State and Federal Interest Liabilities**

Our review of the FY 2000 Cash Management Summary of State and Federal Interest Liabilities report revealed that FAC did not consistently follow written procedures detailing interest calculations. The Summary of Interest Liabilities prepared by FAC reported a State Interest Liability of \$77,186 and Federal Interest Liability of \$7,638. However, based on auditor reperformance of these calculations, it was determined that the State Interest Liability was actually \$43,778 and the correct Federal Interest Liability was \$7,651. The net effect of the liabilities is that the Commonwealth overpaid \$33,421 in interest to the federal government.

The overpayment of interest by the Commonwealth is basically the result of clerical errors. The biggest problem discovered involved several miscalculations in determining the number of days funds were on hand. Another error found involved transactions that were included on supporting documentation, but not reported on either of the State or Federal Interest Liabilities Summary reports.

While individual agencies are responsible for maintaining and reporting the required information that make up the Annual Report, it is ultimately FAC's responsibility for ensuring that the documentation is complete and accurate. For the Cash Management Improvement Act (CMIA) Annual Report to be effective, FAC should make sure all information is correctly reported and interest is calculated using the correct number of days that funds have been on hand.

**Recommendation**

We recommend FAC adhere, in all respects, to the formal procedures for reporting under the CMIA. The calculations of both state and federal interest liabilities should be thoroughly reviewed for completeness and accuracy. The noted overstatement of state interest liability should be included as an adjustment for prior year errors within the FY 2001 Annual Report for the affected Catalog of Federal Domestic Assistance (CFDA) programs.

**Management's Response and Corrective Action Plan**

*The Division of Statewide Accounting Services will conduct a more thorough and complete review of interest calculations. Written procedures will be updated to ensure accuracy checks. Prior year corrections noted by the Auditor's Office will be included in the FY 01 CMIA Annual Report.*

**FINANCE AND ADMINISTRATION CABINET  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2000  
(CONTINUED)**

**SECTION 2 - FINANCIAL STATEMENT FINDINGS**

**Other Matters Relating To Internal Controls And/Or Instances Of Noncompliance:**  
**(Continued)**

**FINDING 00-FAC-11: The Governor's Office For Technology Should Improve Controls Over Expenditure Approvals And Should Maintain Proper Supporting Documentation For All Expenditures**

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During our review of the Governor's Office for Technology (GOT) expenditures, we selected a sample of 45 expenditures to determine if internal controls were in place for expenditures and that expenditures were properly classified, authorized, and recorded. There were nine exceptions noted during testing. Five P1 documents had only one level of approval and four transactions lacked proper supporting documentation.

We also reviewed 34 expenditures for possible duplicate payments. Two transactions lacked proper supporting documentation; therefore, duplicate payments could not be tested for these two transactions.

An expenditure processed with only one approval indicates a lack of segregation of duties that could prevent the detection of possible misstatements or irregularities. Also, the supporting documentation for four expenditures could not be tested to ensure GOT is adequately recording expenditures.

Two transactions could not be tested to ensure GOT has controls in place to prevent duplicate payments.

In order to maintain strong internal control, all transactions should have more than one approval level and documentation should be maintained to provide support for all expenditures.

**Recommendation**

We recommend GOT strengthen controls for approval of expenditures, requiring more than one level of approval for processing expenditure documents. Also, we recommend GOT strengthen controls for keeping supporting documentation for expenditures. There must be some support for the expenditures to prove its existence and valuation.

**FINANCE AND ADMINISTRATION CABINET  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2000  
(CONTINUED)**

**SECTION 2 -FINANCIAL STATEMENT FINDINGS**

**Other Matters Relating To Internal Controls And/Or Instances Of Noncompliance:**  
(Continued)

**FINDING 00-FAC-11: The Governor's Office For Technology Should Improve Controls Over Expenditure Approvals And Should Maintain Proper Supporting Documentation For All Expenditures (Continued)**

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**Management's Response and Corrective Action Plan**

*The Department of Information Systems experienced two significant changes during the audit period. The Commonwealth of Kentucky implemented a computerized accounting system, MARS, and we were re-organized by executive order dated October 16, 1999 into the Governor's Office of Technology. During both of these events, the approval paths were modified to accommodate the changes.*

*We agree with the statement regarding five P1 documents having only one level of approval. On July 1, 1999 the Commonwealth of Kentucky implemented the MARS Accounting System. We were unable to process vendor payments through the Procurement Desktop module of MARS. Vendor payments were made through the Advantage module of MARS, which permitted only one level of approval at that time. Since then, we have instituted three levels of approval for all payments made with the Procurement Desktop module of MARS. Since the Advantage module of MARS allows less than three levels of approvals, we are also migrating the majority of payments to the Procurement Desktop module.*

*We also agree with the statement four transactions lacked proper supporting documentation. Two of the transactions were made on Procurement Cards. One was for a monthly internet service charge and the vendor does not provide a monthly statement. The other was for a United Parcel Service charge in the amount of \$23.90. We have requested a copy of the invoice from United Parcel Service. The other two transactions relate to the area of Telecommunications. Telecommunication billings are interfaced to the MARS Accounting system. The first attempt to interface was incorrect. We were required to remove the initial posting and bill a second time. Since the posting was incorrect, we discarded the supporting documentation. However, we have documentation to support the correct posting.*

*We disagree with the statement two transactions lacked supporting documentation relating to duplicate payment testing. The transactions selected for testing were for space lease rental. As mentioned above, the Department of Information Systems*



**FINANCE AND ADMINISTRATION CABINET  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2000  
(CONTINUED)**

**SECTION 2 - FINANCIAL STATEMENT FINDINGS**

**Other Matters Relating To Internal Controls And/Or Instances Of Noncompliance:**  
**(Continued)**

**FINDING 00-FAC-11: The Governor's Office For Technology Should Improve Controls Over Expenditure Approvals And Should Maintain Proper Supporting Documentation For All Expenditures (Continued)**

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**Management's Response and Corrective Action Plan (Continued)**

*was transitioned on October 16, 1999 to The Governor's Office of Technology. Prior to this transition, lease payments were made by the Office of Management and Budget within the Finance and Administration Cabinet on our behalf. Within MARS, we did not have access to the transaction for viewing or researching. The contract was for the total transaction amount. There were three line entries which agreed with the contract copy provided to the Auditor's office. However, only one of the three transactions was reviewed. Since we did not have viewing access in MARS, we were not able to provide documentation needed. We now have obtained supporting documentation of the total payment and how it was applied to different areas within the Governor's Office of Technology.*

*Procedures have changed to ensure more than one level of approval is applied to purchases made by the Governor's Office of Technology. In addition, supporting documentation is requested weekly for all procurement card purchases. Other payments are now under the direct control of the Governor's Office of Technology and payments documentation should be readily available.*

**Auditor's Reply**

The auditor's comment relating to the lack of supporting documentation for duplicate payment testing resulted from numerous attempts to obtain this documentation during the audit period. We have noted the agency's response indicating this documentation is now available. However, during our testing, the agency was unable to provide the supporting documentation for the lease payments in question. Therefore, we were unable to determine whether the payments were duplicate payments or were valid payments in a timely manner. For this reason, we still recommend the agency strengthen controls over expenditures by maintaining proper supporting documentation.

**SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

There were no federal award findings and questioned costs.

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**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**



**FINANCE AND ADMINISTRATION CABINET  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2000**

<b>Fiscal Year</b>	<b>Finding Number</b>	<b>Finding</b>	<b>CFDA Number</b>	<b>Questioned Costs</b>	<b>Comments</b>
<b><u>Material Weaknesses</u></b>					
<i>1) Audit findings that have been fully corrected:</i>					
No findings for this section.					
<i>(2) Audit findings not corrected or partially corrected:</i>					
No findings for this section.					
<i>(3) Corrective action taken is significantly different from corrective action previously reported:</i>					
No findings for this section.					
<i>(4) Audit finding is no longer valid or does not warrant further action:</i>					
FY98	98-FAC-4	The Division Of Purchases Microcomputers Are Not Fully Year 2000 Compliant	N/A	0	KAPS was defunct as of June 30, 1999. The state's purchasing system was replaced by PD for the FY 2000. Comment dropped for FY 2000.
FY98	98-FAC-6	The Finance and Administration Cabinet Should Continue to Take the Necessary Measures to Ensure the STARS System Is Replaced or Is Made Year 2000 Ready	N/A	0	The STARS system was replaced in July 1999 by the MARS system. In addition, the STARS system was made year 2000 compliant, with the exception of the reporting module. This module was replaced by a Management Report Writing Database. Comment dropped for FY 2000.

**FINANCE AND ADMINISTRATION CABINET  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2000  
(CONTINUED)**

<b>Fiscal Year</b>	<b>Finding Number</b>	<b>Finding</b>	<b>CFDA Number</b>	<b>Questioned Costs</b>	<b>Comments</b>
<b><u>Reportable Conditions</u></b>					
<i>(1) Audit findings that have been fully corrected:</i>					
FY99	99-FAC-2	The Finance and Administration Cabinet Should Develop A Policy Requiring Employees To Use A Password-Protected Screensaver	N/A	0	Agency determined to have adequate security policies for MARS. This finding is resolved.
FY99	99-FAC-6	The Finance And Administration Cabinet Should Implement Policies And Procedures For Maintaining Adequate Supporting Documentation For All Expenditure Transactions	N/A	0	KAPS is no longer in use due to the implementation of MARS. This finding is resolved.
FY99	99-FAC-7	The Finance And Administration Cabinet Should Improve Internal Controls Over Capital Construction Expenditure Transactions	N/A	0	Signature approval issues are not a main source of approval in MARS. This finding is resolved.
FY99	99-FAC-8	The Finance And Administration Cabinet Should Improve Efforts In Effecting Equal Employment Opportunity Contract Compliance	N/A	0	Resolved during FY 2000.
FY99	99-FAC-12	The Division Of Contracting And Administration Should Improve Monitoring Of Compliance Regarding The Reporting Of Kentucky Revised Statute Violations	N/A	0	Resolved during FY 2000.
FY99	99-FAC-16	The Finance And Administration Cabinet Should Improve Monitoring For Duplicate Payments	N/A	0	Resolved during FY 2000.
FY99	99-FAC-17	The Finance And Administration Cabinet Should Improve Monitoring For Split Purchase Arrangements	N/A	0	Resolved during FY 2000.
FY99	99-FAC-18	The Governor's Office For Technology Should Improve Internal Controls For Ensuring Adequate Documentation To Support Agency Transactions	N/A	0	Resolved during FY 2000.

**FINANCE AND ADMINISTRATION CABINET  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2000  
(CONTINUED)**

<b>Fiscal Year</b>	<b>Finding Number</b>	<b>Finding</b>	<b>CFDA Number</b>	<b>Questioned Costs</b>	<b>Comments</b>
<b><u>Reportable Conditions</u></b>					
<i>(2) Audit findings not corrected or partially corrected:</i>					
FY99	99-FAC-1	The Division Of Statewide Accounting Services Should Ensure Only Authorized Budgetary And Transaction-Specific Overrides Are Made To System Tables	N/A	0	Comment not resolved, even though now under MARS environment.
FY99	99-FAC-3	The Division of Statewide Accounting Services Should Follow Established Procedures To Ensure That Only Authorized Changes Are Made to System Tables	N/A	0	Budget overrides and system tables changes concerning overrides were noted as weakly controlled again in FY 2000 under MARS.
FY99	99-FAC-4	The Division Of Contracting And Administration Should Improve Internal Controls Relating To The Use Of Change Orders In Construction Contracts	N/A	0	During testing, we noted one change order without approval and lack of supporting documentation for another change order. This finding is not resolved.
FY99	99-FAC-5	The Division Of Contracting And Administration Should Ensure Established Policies For All Capital Construction Bid Requirements Are Followed	N/A	0	Due to a missing file, this finding was not resolved.
FY99	99-FAC-9	The Finance And Administration Cabinet Should Provide Sufficient Supporting Documentation For Capital Construction Expenditure Transactions	N/A	0	Several problems were noted during the expenditure test. This finding is not resolved.
FY99	99-FAC-10	The Finance And Administration Cabinet Should Implement Policies And Procedures Relating To Small Or Small Minority Business Set-Aside Laws	N/A	0	The Disparity Study has not been completed. It should be released no later than March 2001.

**FINANCE AND ADMINISTRATION CABINET  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2000  
(CONTINUED)**

<b>Fiscal Year</b>	<b>Finding Number</b>	<b>Finding</b>	<b>CFDA Number</b>	<b>Questioned Costs</b>	<b>Comments</b>
<b><u>Reportable Conditions</u></b>					
<b><i>(2) Audit findings not corrected or partially corrected: (Continued)</i></b>					
FY99	99-FAC-11	The Division Of Contracting And Administration Should Maintain Timely Affidavits Of Completion	N/A	0	Several affidavits of completion were not in the file. This finding is not resolved.
FY99	99-FAC-13	The Division Of Contracting And Administration Should Implement Procedures For All Applicable Sections Of The Kentucky Revised Statutes			Due to the timing of our audit, we were not able to make recommendations for compliance until late in FY 2000. However, we observed evidence of compliance in FY 2001.
FY99	99-FAC-14	The Finance And Administration Cabinet Should Provide Clear Language Regarding Enterprise Zones And Use Tax Exemptions Where Applicable	N/A	0	Testing did not include identification of geographical boundaries because it is no longer material to the audit.
FY99	99-FAC-15	The Division Of Contracting And Administration Should Improve Policies Concerning Insurance Coverage For Construction Contracts			No expired insurance policies were found, but insurance policies were not in four different project files. This finding is not resolved.
<b><i>(3) Corrective action taken is significantly different from corrective action previously reported:</i></b>					
No findings for this section..					
<b><i>(4) Audit finding is no longer valid or does not warrant further action:</i></b>					
FY98	98-FAC-2	The Division of Purchases Did Not Adequately Control Access to KAPS	N/A	0	KAPS was defunct as of June 30, 1999. The state's purchasing system was replaced by PD (Procurement Desktop) for FY 2000. Comment dropped for FY 2000.



**FINANCE AND ADMINISTRATION CABINET  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2000  
(CONTINUED)**

<b>Fiscal Year</b>	<b>Finding Number</b>	<b>Finding</b>	<b>CFDA Number</b>	<b>Questioned Costs</b>	<b>Comments</b>
<b><u>Reportable Conditions</u></b>					
<i>(4) Audit finding is no longer valid or does not warrant further action: (Continued)</i>					
FY98	98-FAC-3	The Division Of Purchases Should Implement Automatic Log-Off Security For KAPS	N/A	0	KAPS was defunct as of June 30, 1999. The state's purchasing system was replaced by PD for the FY 2000. Comment dropped for FY 2000.
FY98	98-FAC-5	The Division Of Purchases Should Improve Logical Access Security For KAPS	N/A	0	KAPS was defunct as of June 30, 1999. The state's purchasing system was replaced by PD for the FY 2000. Comment dropped for FY 2000.
FY97	97-FAC-3	The Finance and Administration Cabinet's Division of Accounts Should Consistently Follow Procedures To Ensure Accurate Program Modifications	N/A	0	This was a STARS issue and is non-applicable for FY 2000 MARS programs. Comment dropped for FY 2000.
FY96	97-FAC-5	The Finance And Administration Cabinet Should Provide Adequate Access Security For The Statewide Accounting And Reporting System	N/A	0	This was a STARS issue and is non-applicable for FY 2000 MARS programs. Comment dropped for FY 2000.
FY98	98-C&I-1	Department Of Treasury And Finance And Administration Cabinet Should Enhance Reconciliation Procedures	N/A	0	FAC and Treasury no longer maintain separate investment portfolios. This finding is no longer valid.

**FINANCE AND ADMINISTRATION CABINET  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2000  
(CONTINUED)**

<b>Fiscal Year</b>	<b>Finding Number</b>	<b>Finding</b>	<b>CFDA Number</b>	<b>Questioned Costs</b>	<b>Comments</b>
<b><u>Other Matters</u></b>					
<b><i>(1) Audit findings that have been fully corrected:</i></b>					
FY 99	99-C&I-2	Finance And Administration Cabinet Should Enhance Reconciliation Procedures	N/A	0	FAC and Treasury no longer maintain separate investment portfolios. This finding is resolved.
FY 99	99-C&I-3	The Office Of Financial Management And Economic Analysis Should Not Purchase Collateralized Mortgage Obligations With A Weighted Average Life Of Greater Than Four Years	N/A	0	No problems were noted in the FY 2000 audit. This finding is resolved.
FY 99 FY 98	99-C&I-4 98-C&I-4	Office Of Financial Management And Economic Analysis Should Distribute Written Prospectuses To All Investment Pool Participants	N/A	0	This finding is resolved.
FY 99	99-FAC-21	The Finance and Administration Cabinet Should Monitor the Vendor Offset System Accounts and Data Sources	N/A	0	This was reviewed within our testing of the check-writer files. No problems noted. This finding is resolved.
FY 98	98-FAC-11	The Finance And Administration Cabinet Should Develop A Complete Business Recovery Plan	N/A	0	Adequate plan in place. This finding is resolved.
FY 97	97-FAC-4	The Finance And Administration Cabinet Should Have Written Policies And Procedures Identifying Management And User Responsibilities For System Security	N/A	0	Finance security policies considered adequate. This finding is resolved.

***(2) Audit findings not corrected or partially corrected:***

No findings for this section.

***(3) Corrective action taken is significantly different from corrective action previously reported:***

No findings for this section.

**FINANCE AND ADMINISTRATION CABINET  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2000  
(CONTINUED)**

<b>Fiscal Year</b>	<b>Finding Number</b>	<b>Finding</b>	<b>CFDA Number</b>	<b>Questioned Costs</b>	<b>Comments</b>
<b><u>Other Matters</u> (Continued)</b>					
<i>(4) Audit finding is no longer valid or does not warrant further action (Continued):</i>					
FY 99	99-FAC-19	The Finance And Administration Cabinet Should Improve Internal Controls For Ensuring Adequate Documentation To Support Agency Transactions	N/A	0	FAC receipts were not material to the FY 2000 audit. As with the onset of MARS, DSAS no longer maintains the permanent files for the MARS equivalent of these STARS documents.
FY 99	99-FAC-20	The Finance and Administration Cabinet Should Improve Procedures Over Control Logs to Ensure Completeness and Accuracy of STARS Processing	N/A	0	This was a STARS issue and is non-applicable to MARS. Comment dropped for FY 2000.
FY99	99-FAC-22	The Finance and Administration Cabinet Should Consistently Apply Procedures To Ensure the Completeness of the Calculated Federal Interest Report	N/A	0	Recommended corrections were made to the Annual Report for FY 2000. Further, since the underlying system has changed from FY 1999, this comment is no longer valid. Issues concerning the gathering and processing of CMIA related data were found during the FY 2000 testing and will be dealt with in "new" findings.
FY 98	98-FAC-7	The Division Of Purchases Did Not Develop Formal Policies/Procedures To Ensure The Security Administrator Is Notified Of User Termination, Transfer, Or Changes In Job Responsibility	N/A	0	KAPS was defunct as of June 30, 1999. The states purchasing system was replaced by PD (Procurement Desktop) for the FY 2000. Comment dropped for FY 2000.
FY 98	98-FAC-8	The Division Of Purchases' Policies And Procedures Do Not Expressly Detail User Responsibility	N/A	0	KAPS was defunct as of June 30, 1999. The states purchasing system was replaced by PD (Procurement Desktop) for the FY 2000. Comment dropped for FY 00.

**FINANCE AND ADMINISTRATION CABINET  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
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(CONTINUED)**

<b>Fiscal Year</b>	<b>Finding Number</b>	<b>Finding</b>	<b>CFDA Number</b>	<b>Questioned Costs</b>	<b>Comments</b>
<b><u>Other Matters</u> (Continued)</b>					
<i>(4) Audit finding is no longer valid or does not warrant further action (Continued):</i>					
FY 98	98-FAC-9	The Division Of Purchases Should Request And Review Reports For Unauthorized Access To KAPS	N/A	0	KAPS was defunct as of June 30, 1999. The states purchasing system was replaced by PD (Procurement Desktop) for the FY 2000. Comment dropped for FY 2000.
FY 98 FY 97	97-FAC-2	The Division of Accounts Should Consistently Follow Established Procedures To Ensure Only Authorized Changes Are Made To System Tables	N/A	0	This comment was upgraded to a reportable condition in FY 1999, and is therefore no longer valid. See follow up for comment 99-FAC-3.
FY96		The Division Of Purchases Did Not Maintain The KAPS Technical Manual	N/A	0	KAPS was defunct as of June 30, 1999. The states purchasing system was replaced by PD (Procurement Desktop) for the FY 2000. Comment dropped for FY 2000.

